

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF OFFICE OF COMMUNITY
SERVICES DISCRETIONARY GRANT
AWARD NUMBER 90EE0153**

**VERMONT SLAUSON ECONOMIC
DEVELOPMENT CORPORATION,
LOS ANGELES, CALIFORNIA**



**JANET REHNQUIST
INSPECTOR GENERAL**

**DECEMBER 2001
A-09-01-00096**

Office of Inspector General

<http://www.hhs.gov/progorg/oig/>

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The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Region IX
Office of Audit Services
50 United Nations Plaza,
Room 171
San Francisco, CA 94102

December 10, 2001
CIN: A-09-01-00096

Ms. Marva Smith Battle-Bey
Executive Director
Vermont Slauson Economic Development Corporation
5918 South Vermont Avenue
Los Angeles, California 90044-3714

Dear Ms. Battle-Bey:

Enclosed are two copies of U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Audit of Office of Community Services Discretionary Grant Award Number 90EE0153." A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.) As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://www.hhs.gov/progorg/oig>.

To facilitate identification, please refer to Common Identification Number A-09-01-00096 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:
Mike Hill, Director
Division of Financial Integrity
Room 6th Floor East Aerospace Building
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

REGION IX

**AUDIT OF OFFICE OF COMMUNITY
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AWARD NUMBER 90EE0153**

**VERMONT SLAUSON ECONOMIC
DEVELOPMENT CORPORATION,
LOS ANGELES, CALIFORNIA**



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NOTICES

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <http://www.hhs.gov/progorg/oig/>

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

CIN: A-09-01-00096
December 10, 2001

Ms. Marva Smith Battle-Bey
Executive Director
Vermont Slauson Economic Development Corporation
5918 South Vermont Avenue
Los Angeles, California 90044-3714

Dear Ms. Battle-Bey:

This report provides you with the results of our audit of a \$500,000 discretionary grant number 90EE0153 awarded to the Vermont Slauson Economic Development Corporation (the Corporation) by the Office of Community Services¹ (OCS). The audit was to determine whether the Corporation (i) achieved the project goals and complied with the terms and conditions of the grant, and (ii) properly recorded, accounted for, and reported on Federal funds.

The Corporation did not accomplish the goals of the grant, which were to develop a commercial building and create 112 permanent jobs. We also found that the Corporation did not adequately manage the grant funds in accordance with Federal regulations and the terms and conditions of the grant. All of the costs claimed under the grant were not supported by adequate documentation. In addition, interest earned on Federal advances of funds was not returned to the Federal Government. We recommend that the Corporation refund \$95,560 to the Federal Government and take steps to improve its management and internal controls.

In written comments to a draft of this report, the Corporation did not concur with all our recommendations. However, the Corporation concurred with our recommendations to remit \$5,979 in interest earned on Federal funds to the Federal Government, and develop and implement some of the recommended policies and procedures. The Corporation's comments and Office of Inspector General (OIG) responses are summarized after each finding, and the comments are included in their entirety as an APPENDIX to this report.

¹ The OCS is one of the divisions of the Administration for Children and Families within the Department of Health and Human Services.

INTRODUCTION

BACKGROUND

The OCS was established in the Department of Health and Human Services (HHS) by the Community Services Block Grant (CSBG) Act of 1981, which authorized the Secretary to make grants to States to ameliorate the causes of poverty in communities within such States. The Urban and Rural Community Economic Development Program, under Section 681(a) and 681(b)(2) of the CSBG Act, as amended, is intended to support projects which provide employment and ownership opportunities for low-income people through business, commercial, and employment skills development. The emphases of projects must be on job creation, self-help, and mobilization of the community-at-large. One of the requirements that grant applicants are required to show is that proposed projects would create full-time permanent jobs and that at least 75 percent of the jobs are intended to be for low-income residents of the community.

The Corporation was established in 1979 as a community-based non-profit organization, whose primary purpose was to further the prosperity and development of South Central Los Angeles by revitalizing the physical and cultural life of the area. Its projects included business development, employment and training, and commercial and housing development.

The Corporation was awarded \$500,000 for the period September 29, 1995 through September 30, 2000. An objective of the grant was to create 112 permanent jobs. At least 75 percent of the jobs were to be for low-income individuals. The Corporation proposed creating the jobs by forming a joint venture with the owner of the land for the development of a 55,000 square foot commercial building in South Central Los Angeles. The first two floors of the building were to be occupied by the owner of the land and used as a retail store. The third floor was to be used for new business ventures.

OBJECTIVES, SCOPE AND METHODOLOGY

The OCS grant number 90EE0153 was randomly selected for our audit along with other discretionary grants awarded by Administration for Children and Families. Our audit was performed in accordance with generally accepted government auditing standards. Our review of internal and management controls at the Corporation was limited to those controls necessary to achieve our objectives. The objectives of our audit were to determine whether the Corporation (i) achieved the project goals and complied with the terms and conditions of the grant, and (ii) properly recorded, accounted for, and reported on Federal funds.

To accomplish the audit objectives, we reviewed: (i) applicable Federal regulations; (ii) the OCS announcement published in the Federal Register, dated January 5, 1995; (iii) the grant application and the associated award documents; (iv) interim and final program and financial reports; (v) correspondence between the Corporation and OCS; and (vi) selected program and financial information of the Corporation.

The Corporation's management provided us only selected copies of the Board of Directors' minutes. The Executive Director refused to provide the board packages² for our review and restricted our access to these records. Management's refusal to furnish these board packages constituted a limitation on the scope of the audit.

Our audit was performed from July through September 2001 with fieldwork conducted at the Corporation in Los Angeles, California.

FINDINGS AND RECOMMENDATIONS

REVIEW OF GRANT ACCOMPLISHMENTS

The Corporation did not accomplish its project's objectives of constructing the commercial building and creating 112 permanent jobs. At the end of the grant period, the building was not constructed, the retail store was not opened, business ventures were not in place, and low-income individuals were not employed. Accordingly, the benefits for the community were not achieved as intended by the grant.

The Executive Director told us that the Corporation was not successful in accomplishing its project objectives due to the problems encountered. Originally, the owner of the property planned to lease the first two floors of the commercial building that was to be developed. However, shortly after the grant application was submitted to OCS, the owner of the property decided not to proceed with the lease. The Corporation was not successful in finding other prospective tenants; therefore, the construction of the building did not take place.

The Corporation did not have policies and procedures in place to monitor the progress of the project. Therefore, the Corporation did not (i) adequately notify OCS of any problems encountered, (ii) obtain approval of changes it made to the grant's objectives, and (iii) request technical assistance. For example, OCS was not notified of the problems encountered by the Corporation until a year later after the application was approved. In addition, changes to the project objectives were not pre-approved by OCS. For example, the Corporation pursued other joint venture opportunities with a different partner; however, no requests were submitted to OCS to approve this change in the scope of work. In accordance with the terms and conditions of the grant, the Corporation "must carry out the project according to the application as approved by Administration for Children and Families, including the proposed work program...."

The Corporation did not submit all required program reports, and the ones submitted were often untimely, inadequately supported, or did not contain all the elements required by the Federal regulations. For the project period, the Corporation was required to submit 11 program reports: 10 semi-annual reports and 1 final report. However, the Corporation submitted only 6 semi-annual program reports out of the 10 required. Of the six submitted, only one was submitted timely, four were submitted late, and for the remaining one we were unable to determine when it was submitted to or received by OCS. In addition, the Corporation did not submit the final program report.

² The board packages included documents such as: board of directors' meeting agenda, minutes of the board meeting, memorandums, and reports to the board.

Recommendations

We recommend that the Corporation:

1. Establish policies and procedures to monitor progress in reaching milestones and accomplishing objectives of grant awards.
2. Ensure that any changes to a project's objectives are approved by filing requests for amendments with the awarding agency.
3. Develop procedures for notifying the awarding agency of any problems, delays, or adverse conditions, which materially impair its ability to meet the objectives of a grant award.
4. Request assistance from the awarding agency to resolve impairments to meeting grant objectives when appropriate.
5. Develop and implement procedures to ensure that all program reports are supported by adequate documentation and submitted timely as required by Federal regulations and terms and conditions of the grant.

Auditee Comments and OIG Responses

Auditee Comments on Objectives, Scope and Methodology

The Corporation indicated that refusal to provide board packages for our review was incorrectly reported. The Corporation stated that the board packages are not part of its permanent records but are part of the Executive Director's files and contain correspondence and information that are outside the scope of the audit.

OIG Response

The Executive Director provided copies of minutes of Board of Directors' meetings. Based on references in some of the minutes to projects that were updated in "Board Packages," we requested access to these records. However, our request was denied by the Executive Director. Management's refusal to furnish these board packages constituted a limitation on the scope of the audit.

Auditee Comments on Recommendation 1

The Corporation concurred that policies and procedures to monitor progress are necessary. The Corporation indicated that there are no specific written policies and procedures in place to monitor milestones. Such action will be undertaken and implemented.

OIG Response

The actions proposed by the Corporation address the recommendation.

Auditee Comments on Recommendations 2 and 3

The Corporation did not concur that the grant objectives were changed or the reports did not adequately describe problems and delays related to the project. In addition, the Corporation believed it met its reporting obligations.

OIG Response

The Corporation was authorized to construct a three-story commercial building that would be used for retail space and a business incubator by forming a joint venture with the landowner for the development of the building. However, the scope of the grant was changed when the owner decided not to pursue a joint venture with the Corporation and the land was no longer available for construction purposes. Under the provisions of 45 CFR Part 74.25, “Recipients are required to report deviations from budget and program plans, and request prior approval for budget and program plan revisions....”

The Corporation did not meet its reporting obligations. All required program reports were not submitted and the reports submitted were generally untimely, very brief, and did not include all the required elements. Accordingly, OCS was not always aware of all the changes and other opportunities pursued by the Corporation.

Auditee Comments on Recommendation 4

The Corporation did not concur with our recommendation to request assistance from the awarding agency to resolve impairments to meeting grant objectives. The Corporation indicated that problems experienced were included in the reports to OCS, and no such assistance was offered by OCS.

OIG Response

Our review of the program reports disclosed that the Corporation did not submit all required reports, and the reports submitted did not include all of the sections required by the terms and conditions of the grant. The Corporation did not use the program reports to advise OCS of the need for assistance, nor seek assistance from OCS by other means.

In accordance with Federal regulations at 45CFR 74.51(f), recipients shall immediately notify the awarding agency of developments that have significant impact on award-supported activities, and any problems, delays, or adverse conditions, which materially impair the ability to meet the objectives of the award. This notification shall include a statement of the action taken or contemplated, and any assistance needed to resolve the situation. In addition, reporting instructions provided by OCS included a section for reporting problems. This section should have been used by the Corporation to advise OCS of the need for assistance.

Auditee Comments on Recommendation 5

The Corporation concurred with the recommendation, and indicated that a reporting procedure will be developed and project managers will be monitored to ensure reports are timely and supported by adequate documentation.

OIG Response

The actions proposed by the Corporation address the recommendation.

COSTS CLAIMED AND INTEREST EARNED

The costs claimed of \$89,581 by the Corporation were not adequately supported as required by Federal regulations. In addition, \$5,979 of interest earned on Federal funds received by the Corporation was not returned to the Federal Government. These amounts, totaling \$95,560, should be returned to the Federal Government.

Costs Claimed Were Not Adequately Supported

The \$89,581 in costs claimed by the Corporation were not supported. We found that these costs were neither recorded in a separate account for this grant nor supported by the documentation maintained by the Corporation.

The Office of Management and Budget (OMB) Circular A-122 (7)(m) states:

The distribution of salaries and wages to awards must be supported by personnel activity reports.... Reports reflecting the distribution of activity for each employee must be maintained for all staff members...whose compensation are charged, in whole, or in part, directly to awards.

Our review of the Corporation's records showed that no expenses were allocated to or charged directly to the OCS grant. The Executive Director informed us that the salaries of the staff that worked on the OCS grant were recorded in a management and general account because the amounts were not significant. However, there was no support for how management used this information to claim these costs on the OCS grant for the period May 1996 through May 1998. For example, the program manager's time was allocated to the management and general account only for the month of June 1996. For the remaining months, all of his time was directly allocated to other projects or programs. In addition, the documentation provided to us by the Executive Director disclosed that the annual salaries used in this process did not match the actual salaries paid to the employees for those years.

The Corporation did not prepare or maintain personnel activity reports to reflect that the costs claimed were incurred specifically for the award and benefited the award as required by OMB Circular A-122. In addition, the documentation provided to support the costs claimed on the OCS grant from the management and general account did not provide evidence of any time devoted to the project. Accordingly, the \$89,581 should be refunded to the Federal Government.

Interest Earned on Federal Funds Was Not Returned

The Corporation retained all interest earned on Federal funds, which is contrary to the Federal regulations. Management was not aware that the interest earned on Federal advances of funds

had to be returned. The balance of \$410,000³ had been advanced through the Federal payment management system at the end of the grant period. Neither the Federal Cash Transaction Report nor the Financial Status Reports disclosed expenditures for the \$410,000 during the grant period. The funds were returned to the Federal Government in June 2001, over 8 months after the Corporation had received them.

The Federal regulations at 45 CFR Part 74.22 (l) state that:

...interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to the Department of Health and Human Services, Payment Management System.... Interest amounts up to \$250 per year may be retained by the recipient for administrative expense.

Upon receipt of the funds, the Corporation deposited the \$410,000 into an interest bearing account. In February 2001, the funds were transferred into an interest bearing money market account as cash equivalents. Based on our calculations, the interest earned totaled \$6,229 of which \$5,979 (\$6,229 - \$250) should be remitted to the Federal Government as required by Federal regulations.

Recommendations:

We recommend that the Corporation:

1. Refund \$89,581 in costs claimed that were not supported by adequate documentation to the Federal Government
2. Remit \$5,979 in interest earned on Federal funds to the Federal Government.
3. Strengthen management and financial controls to ensure proper administration of Federal funds.

Auditee Comments and OIG Responses

Auditee Comments on Recommendation 1

The Corporation did not concur with our recommendation to refund \$89,581 to the Federal Government because the costs were allocated and supported by an adequate methodology. In its response, the Corporation stated that documentation sufficiently reflected the time spent on the project, and program reports described the scope of work performed. The Corporation disagreed that the salaries did not match the actual salaries paid to employees. In addition, the auditee indicated that the Federal funds were held in a separate OCS account and not commingled with other funds as reported.

³ The \$410,000 was deposited into the Corporation's bank account as follows: \$235,000 on September 28, 2000, and \$175,000 on October 2, 2000.

OIG Response

The Corporation did not provide documentation to show that any of the salaries claimed for the three employees were for OCS grant activities. The cost principles set forth in OMB Circular A-122 provide that in order to be allowable under an award, a cost must be reasonable for the performance of the award, allocable to the award and adequately documented. More specifically, the distribution of salaries and wages to awards must be supported by personnel activity reports. The Circular further provides that reports maintained by non-profit organizations to satisfy these requirements must:

- Reflect an *after-the-fact* determination of actual activity of each employee.
- Account for the total activity for which employees are compensated.
- Be signed by the individual employee, or by a responsible supervisory official.
- Be prepared at least monthly and must coincide with one or more pay periods.

The Corporation did not have monthly after-the-fact signed reports reflecting the total activities for which employees were compensated. For salaries and wages claimed on the OCS grant, neither the Corporation's accounting records nor its quarterly allocation schedules supported the amount claimed of \$89,581. For example, the quarterly allocation schedules contained percentages of time spent by employees on various programs and functions, but the schedules did not include the OCS grant.

Management informed us that the time worked by the three employees on the OCS grant was included in the allocation percentages for the management and general account. However, for one of the employees whose salary was claimed on the OCS grant, we noted that all of his time from July 1996 through June 1998 was directly allocated to other programs and functions on the allocation schedules and not to the management and general account. In addition, the Corporation was unable to provide any support for the percentages it used to distribute the salaries and wages it claimed on the OCS grant.

The salaries and wages allocated to the OCS grant for the period May 1996 through May 1998 were not supported by the Corporation's payroll records or program reports. For example, the salary used for the allocation for one employee was higher than what the employee was paid in the years 1996 to 1998. Further, no program reports were submitted for the first year of the project, and not all program reports were submitted for the subsequent years. For the program reports submitted, the Corporation did not identify the employees working on the project nor the type of activities that took place.

Lastly, contrary to the Corporation's comments, our report does not state that Federal funds were commingled with other funds. The Corporation maintained a separate bank account for the deposit of the OCS funds. This section of our report provides that the Corporation did not use a separate accounting category within its financial records for the OCS grant and it did not have documentation to support the costs claimed on the OCS grant.

Auditee Comments on Recommendations 2 and 3

The auditee concurred with our recommendations and enclosed a check for the amount of \$5,979 in interest earned. The Corporation will continue to improve management and financial controls to ensure proper documentation of Federal funds.

OIG Response

The actions proposed by the Corporation address the recommendations. The check will be forwarded to the HHS action official.

OTHER FEDERAL REQUIREMENTS

Uninsured Bank Balances

The Corporation did not have controls in place to ensure compliance with Federal regulations. The Corporation invested Federal fund advances in a money market account, thereby subjecting Federal funds to a risk of loss. In addition, the Corporation maintained Federal funds in a bank account that had periodic bank balances that exceeded \$100,000. According to the Federal Deposit Insurance Corporation (FDIC), deposits in excess of \$100,000 in one bank are not insured under FDIC. The Federal regulations at 45 CFR Part 74.22 (i)(2) state that: “Advances of Federal funds shall be deposited and maintained in insured accounts whenever possible.”

The organization maintained over \$400,000 for about 4 months in the investment account, which was neither insured by FDIC, nor guaranteed by the bank. In addition, the organization maintained bank balances of Federal funds exceeding \$400,000 in one account for over 4 months. Federal funds invested may be lost due to loss of principle invested, or lost when a cash balance in one bank exceeds \$100,000 unless fully insured or collateralized.

Financial Reports

Due to the lack of policies and procedures, the required financial reports were not all submitted. According to the terms and conditions of the grant, the Corporation was required to submit 11 financial reports: 10 semi-annual reports and 1 final report. We found that out of 10 required semi-annual financial reports, 2 were not submitted, and 3 could not be verified that OCS had received them. In addition, the Corporation did not submit the final financial report.

Recommendations

We recommend that the Corporation:

1. Develop controls to ensure that Federal funds are maintained in insured accounts.
2. Develop and implement procedures to ensure that all financial reports are submitted and filing deadlines are met.
3. Submit the overdue final financial report.

Auditee Comments and OIG Responses

Auditee Comments on Recommendation 1

The auditee did not concur with our recommendation and indicated that funds were maintained in an account insured by the Securities Investor Protection Corporation (SIPC). The Corporation stated that the SIPC insures funds up to \$500,000.

OIG Response

The Corporation drew down \$410,000 in Federal funds without incurring any OCS project expenses. The Federal funds were initially deposited into an FDIC insured bank account; however, the FDIC insurance covers only up to the amount of \$100,000. Therefore, \$310,000 of Federal funds was not insured through the FDIC and remained at risk.

Several months later, the Corporation invested all of the Federal funds in a money market account. The bank statement indicated that the funds invested were at risk for loss. In addition, the money market fund's prospectus provided that an investment in the fund may lose money; is not a bank deposit; and is not insured or guaranteed by the bank, the FDIC or any other government agency.

Although the investment service was a member of SIPC, the SIPC does not provide blanket protection of losses in the same manner as FDIC. The SIPC protects the investors when a brokerage firm is closed due to bankruptcy or other financial difficulties. However, the SIPC does not protect investors when the value of their investments falls due to market losses or any other reason. Accordingly, the Federal funds invested in the money market account remained at risk of loss.

Auditee Comments on Recommendations 2 and 3

The auditee concurred with our recommendations by indicating that procedures will be adopted to ensure timely submission of the reports. The Corporation enclosed the final financial status report with its comments.

OIG Response

The actions proposed by the Corporation address the recommendations. The final financial status report will be forwarded to the HHS action official.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

To facilitate identification, please refer to Common Identification Number A-09-01-00096 in all correspondence relating to this report.

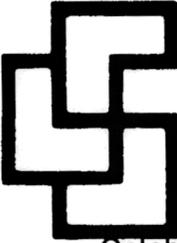
Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with a large initial "L" and "A".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

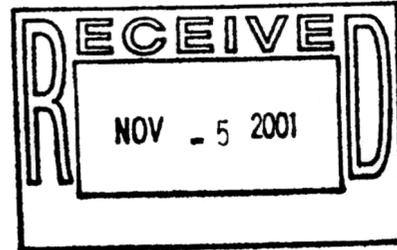
Direct Reply to HHS Action Official:
Mike Hill, Director
Division of Financial Integrity
Room 6th Floor East Aerospace Building
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

APPENDIX


VERMONT SLAUSON ECONOMIC DEVELOPMENT CORPORATION

October 31, 2001

Lori A. Ahlstand, Regional Inspector General
 For Audit Services
 Region IX
 Office of Audit Services
 50 United Nations Plaza, Room 171
 San Francisco, CA 94102



Dear Ms. Ahlstand:

Enclosed are our comments regarding the OCS Audit of Grant Award Number 90EE0153.

Objectives, Scope and Methodology: The audit reports that the Executive Director refused to provide board packages for review and restricted access of these records to the auditors. This is incorrectly reported. The Executive Director provided all minutes and staff reports to the auditors. The board packages referred to by the auditors are not part of the permanent records of the corporation whereas the minutes and staff reports are. The packages are part of the Executive Director's files and contain correspondence and information that are outside the scope of the audit.

Review of Grant Accomplishments

1. Establish policies and procedures to monitor progress in reaching milestones and accomplishing objectives of grant awards.

Concur: Policies and procedures to monitor progress are necessary. While staff program reports were initiated several years ago, there are no specific written policies and procedures in place to monitor milestones. Such action will be undertaken and implemented.

2. Ensure that any changes to a project's objectives are approved by filing requests for amendments with the awarding agency.

Non-concurrence. Reports to the OCS agency reflected any changes in the project objectives. We were not informed of the need to further obtain amendments. The nature of the project nor the number of jobs were changed, therefore we do not agree that the objectives were changed or were in need of amendment.

3. Develop procedures for notifying the awarding agency of any problems, delays or adverse conditions, which materially impair its ability to meet the objectives of a grant award.

Non-concurrence: The reports submitted to the OCS agency described problems and delays related to the project. We believe we met our obligations to the awarding agency.

4. Request assistance from the awarding agency to resolve impairments to meeting grant objectives when appropriate.

Non-concurrence: Again we reported problems experienced in meeting the objectives of this grant on our reports to OCS. We were unaware that the agency was in a position to provide assistance to resolve impairment. We never received information from agency that this intervention was available. Agency never offered assistance.

5. Develop and implement procedures to ensure that all program reports are supported by adequate documentation and submitted timely as required by Federal regulations and terms and conditions of the grant.

Concur: Project managers will be monitored more rigorously to insure that these reports are timely and supported by documentation as discussed in the audit review. A reporting procedure will be developed.

Costs Claimed and Interest Earned

- 1 Refund 89,581 in costs claimed that were not supported by adequate documentation to the Federal Government.

Non-concurrence: We believe that the documentation presented sufficiently reflected the time spent on the project. It is inconceivable that this entire amount would be disallowed. Reports reflect the scope of the work that was done. Much time was spent reinventing the project to work within the proposed scope, research and meetings with franchisees, reports, etc. We do not agree that the entire amount of 89,581 should be returned. Further we disagree that the salaries did not match the actual salaries paid to employees, per our records. We maintain that the costs were allocated and supported by a methodology we thought to be adequate. Additionally funds were held in a separate OCS account and not co-mingled with other funds as reported. We request this finding be reviewed and that the agency reconsider the refund amount.

- 2 Remit \$5,979 in interest earned on Federal Funds to the Federal Government.

Concur: A check is enclosed for the \$5,979 in interest earned.

3. Strengthen management and financial controls to ensure proper administration of federal funds.

Concur: Continued improvement in the area of strengthening management and financial controls is a continuous process in the agency. We will review our current procedure for improvement.

Other Federal Requirements

1. Develop controls to ensure that Federal funds are maintained in insured accounts.

Non-concurrence: Funds were maintained in an insured account by Bank of America. This account is insured by SPIC – Securities Investor Protection Corporation which insures the account where funds were placed up to \$500,000.

2. Develop and implement procedures to ensure that all financial reports are submitted and filing deadlines are met.

Concur: Procedures and timelines will be set to ensure that all reports are submitted timely.

3. Submit the overdue final financial report

Concur: Attached.

4. Have independent auditors perform a single audit for the fiscal year ended June 30, 2000.

Non-concurrence: Per our auditors' review and determination we are not required to perform a single audit for the fiscal year ended June 30, 2000 because we did not expend more than 300,000 in federal funds for the period ending June 30, 2000.

See OIG Note below.

Sincerely,



Marva Smith Battle-Bey
Executive Director

Also attached is the \$419.33 balance due from previous return refunds.